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Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI		✓		
2	DDCI		✓		
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SUSPENSE		3 December 1991 Date			

Remarks:

Please have reply prepared
for DCI's signature.

3 December 1991
Date

United States Senate

WASHINGTON, D.C. 20510

December 1, 1981

The Honorable William J. Casey
Director of Central Intelligence
National Security Council
Old Executive Office Building
Washington, D.C. 20506

Dear Mr. Casey:

The Reagan Administration has been confronted with an unexpected combination of slower economic growth and a postponement in the tax cut which has resulted in lower revenues, higher deficits and a surprising sentiment favoring defense spending cuts.

Since the earliest days of his Administration, President Reagan has pledged to close the gap between the Soviet's military expenditures and those of the U. S. It was assumed that there would be broad and bipartisan acceptance of plans to expand U. S. defense spending to solve the problem. But with a more austerity-oriented Administration and Congress, it is becoming increasingly difficult to close the "window of vulnerability" simply by accelerating U. S. defense spending.

As you know, I strongly support increased spending for needed defense programs. There is, however, an alternative that may very well produce the desired result. It appears possible to reduce the ability of the Soviets to spend more on their military.

During the past ten years, the U. S. has inadvertently subsidized Soviet military expansion. In a recent economic study prepared by A. B. Laffer Associates on the importance of a gold standard, this important point is made: "The Soviet Union has been one of the major benefactors of the abandonment of the gold standard. Between 1971 and the beginning of 1980, when the price of gold peaked at nearly \$850 an ounce, the purchasing power of gold increased by a factor of 10. Even at a price of \$400 an ounce, the Soviets can buy five times as much goods and services in the West than they could when the dollar was linked to gold.

"It is not surprising that during the past decade, the Soviet Union has sold substantial amounts of gold,

The Honorable William J. Casey
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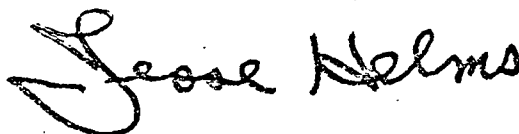
(estimated to be 76 million ounces between 1971 and 1979). The net effect of attempting to demonetize gold has been to subsidize the massive increase in Soviet adventurism."

The adoption of the gold standard is almost certain to have the effect of significantly reducing the price of gold, thus reducing the Soviet Union's ability to purchase goods and services to support its military effort in exchange for the estimated 10 million ounces of gold produced annually by the Soviets. Thus, the gold standard could not only be good economic policy, it could also be good foreign policy.

The Administration has stated that precisely such a new monetary standard is being considered and is following the deliberations of the Gold Commission closely. It would be a significant contribution to the debate if you would direct appropriate staff within the Central Intelligence Agency to analyze the effects of a major reduction in the price of gold on the Soviet Union. My staff and Mr. Laffer will, I know, be glad to cooperate in making such an analysis.

I will appreciate hearing from you in this regard.

Sincerely,

A handwritten signature in dark ink, reading "Jesse Helms". The signature is written in a cursive, slightly stylized script. The first name "Jesse" is written with a large, looping 'J' and the last name "Helms" follows in a similar cursive style.

JESSE HELMS:hcm